

USWA-JA-1



Gary L. Neale
Chairman, President, and
Chief Executive Officer

801 E. 86th Avenue
Merrillville, IN 46410

December 7, 2001

TO ALL NISOURCE EMPLOYEES:

As we end 2001 and look forward to 2002, I would like to spend some time reflecting on our first year as the new NiSource and discussing our plans for the future. In our first year as a merged organization, we have articulated a vision for the future and made significant progress in building a platform from which we can become the Leader in Creating Energy Value. Each of you has made a personal contribution this year to our progress, and I want to thank you all for your hard work and commitment.

On the negative side, as we have reported, we will not achieve our 2001 Earnings Per Share (EPS) goal, and as we look forward to 2002 and a poor economy, we face many challenges. Our earnings guidance for 2002 puts us at EPS of \$2.15 to \$2.20, which is a no-growth forecast. To realize even these earnings and to fulfill our vision, we need to drive to a new level of excellence in all aspects of our operations. This means we must streamline our organization, find more efficient ways of doing our work, and reduce costs.

In the past few weeks, the Management Council and I have created a plan to help us through the current recession, stabilize earnings, and establish a platform for future growth. This plan will enable us to better meet the challenges before us. To date, we have made the following decisions:

- The Management Council and all other exempt personnel will receive no pay increases in 2002.
- There will be no payout for the EPS portion of the 2001 annual incentive plans. However, other payments that are linked to achieving business segment EBIT, budget and customer service goals, will be determined after the close of the year.
- Incentive bonus plans for 2002 will be EPS based. Thus, if we do not achieve our corporate EPS threshold, there will be no bonuses throughout the company in 2003.
- All hiring will be put on hold. Any vacancies that occur cannot be filled unless approved by the Management Council. The process for requesting hiring approval will be communicated in the next few weeks.
- The NiSource severance policy (which applies only to pre-merger NiSource employees) has been modified to reflect the needs of the company and to be

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more in line with the market, capping the maximum severance payout to 52 weeks. The revised policy in its entirety is available on the NiSource intranet.

- All departments have been asked to significantly reduce their budgets and are responding with both O&M cuts and capital spending reductions.

In addition to these actions, several other initiatives are under way:

- Across NiSource, we are examining our overall organization structures, roles, responsibilities, and processes to determine ways in which we can further streamline and make us even more effective. A small team of outside consultants and employees will be making their recommendations to the Board of Directors and Management Council by the end of January 2002.
- Operational Excellence programs are a mechanism to determine ways in which, in the long term, we can truly operate the business in a more effective way. The Energy Distribution Group is well on its way to defining the ways in which it can streamline operations and improve performance over the next three years and will be communicating the results of their phase one activities in the near future. The Pipeline and Production Group and the Merchant Energy Group have committed to putting Operational Excellence programs in place early in 2002 to continue the process of improving operations across the organization.
- The Merchant Energy Group announced its plan to shut down NIPSCO's Dean H. Mitchell generating station. The decreased demand for electricity and current wholesale market prices, combined with the capital expenditures required to maintain the aging facility, all converged to create a situation in which it is not economically prudent to operate the plant.

Unfortunately, the above cost-cutting measures do not come without some human consequences. We will also need to reduce our workforce. We hope to obtain most of these reductions through retirements, attrition, and voluntary severance programs, but some layoffs of employees will occur. This is a reality. These decisions will be made at the individual department and business unit level.

These actions are necessary to adjust to conditions posed by the economic downturn, which might last to the fourth quarter of 2002. Energy demand in the industrial, commercial, and residential sectors has declined significantly, offsetting the growth potential of NiSource's distribution business. Declining consumption has also placed prices under pressure, lowering margins for wholesale gas and electric sales. NiSource also expects less price volatility in the nation's energy markets, making it more difficult to achieve growth in our emergent merchant energy business in 2002.

In total, margins in all of our business units will be under pressure in 2002.

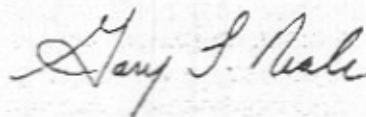
Our vision and the challenges that face us require commitment from each of us. We must pull together, and we must pull in the same direction. I am asking each of you to

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think and act like owners. Talk with your managers about how we can improve our operations. Let us know your thoughts on how we can do things better. Send your ideas to the Leadership Council's mailbox (leadershipcouncil) to make sure that we are not missing any opportunities to improve our operations.

Communication of our progress toward achieving our goals will be essential. I commit to regular updates on our performance. If we work together, I am confident we can achieve the goals we have set and will be a stronger company in the future.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gary S. Nash".